



PROGRESS INSPECTIONS


The progress inspection report (SBA form 300) typically originates within the Legal Department by an Attorney or Paralegal and is routed to the Verification Department for completion.

The progress inspection is a review by the Loss Verifier of the recovery project and is presented in a written report. As with any type of report, it must be well written, neat, and concise. The progress inspection report must include comments addressing inquiries posed by the originator and provide an overview of the construction project and conclude with a recommendation by the Loss Verifier. If a disbursement is suggested or a disbursement cannot be recommended, the Loss Verifier should clearly provide comments to support his/her opinion.

The Legal and Loan Department use Verification's opinion and it often becomes the basis for an action by an Attorney or a Loan Officer. Comments and recommendations should be consistent, and provide a source of reliable information during the recovery process. This consistency begins with a review of the file and discussion with the Borrower. Initial contact allows the unique opportunity to provide guidance and support that will assist them. The role as a Loss Verifier is an important one.


Most Borrowers have never been involved with any kind of construction project and will welcome guidance. Few have had a SBA disaster loan, so they seldom know what to submit, or how the disbursement and loan modification process works. By providing them with appropriate information at this point, the Loss Verifier can make the entire process easier for everyone involved, and avoid a multitude of potential problems. The Loss Verifier should not recommend General Contractors, Subtrades, or specific repair methods; however, assistance is provided by discussing general construction techniques.

ICON KEY

 Objectives Of The Progress Inspection.

 File

 Establishing A Routine While Doing A 300.






 Is Your Prior Injection Satisfied?

 Communicating With The Borrower.

Objective

The objective of the Progress Inspection (300) is to assist the Legal Department by confirming that the Borrower is using the SBA loan funds in accordance with the Loan Authorization and Agreement (LA & A).

The report can be prepared at the Area Office as a “desktop” or in the field as an “on-site”. In either case, it is the responsibility of the Loss Verifier to compile, review, make recommendations, and present all pertinent information in a well written, understandable report. The report should include any or all of the following as they apply:

-  Comments on the status of the project - These comments usually should consist of the approximate total project completion to date, items remaining to be completed, estimated time frame for completion and funds required.
-  An analysis of the Borrower’s expenses to date versus all funds received for disaster recovery - These funds may include amounts received from FEMA’s Minimal Repair Program (MRP), Insurance Companies, and the SBA. Also, other funds if there is a prior injection requirement.
-  Specific recommendations regarding the amount of loan funds to be disbursed, such as contracts, draw schedules, invoices, and the use of co-payable checks to satisfy other types of commitments.
-  Comments addressing specific inquiries from the Legal Department that are within the Verification Department’s scope of responsibilities.
-  During an on-site inspection photos of job progress should be included.

Order of File Documents

Prior to discussing the file with the Borrower, the Loss Verifier should become familiar with the contents and what information is contained within each section. The file folder is divided into specific sections so that a uniform procedure can be followed for organizing the many required documents. The contents are grouped into six sections and may contain the following:

I. Authorizations, Modification, Etc.

- ✓ Original Loan Authorization and Agreement (LA & A) signed by the borrower(s).
- ✓ Loan Modifications or Administrative Actions (Form 1913)

V. Closing & Servicing Documents

- ✓ Attorney check sheet
- ✓ Opinion of Counsel
- ✓ Record of transmittal of collateral to and receipt of collateral by collateral cashier (SBA 649)
- ✓ Copy of the Note signed by the borrower(s)
- ✓ Copy of recorded SBA Mortgage/Deed of Trust (DOT)
- ✓ Initial SBA mortgage/unrecorded (DOT)
- ✓ Copy of recorded SBA security instruments
- ✓ Initial SBA unrecorded security instruments
- ✓ Copy of the Guaranty(s) if any
- ✓ Copy of any other document(s) of which the original is in the collateral file.
- ✓ Evidence of hazard insurance and SBA as loss payee
- ✓ Evidence of flood insurance and SBA as loss payee

- ✓ Assignment of insurance proceeds and related documents
- ✓ Corporation/Partnership documents
- ✓ Agreement of compliance (Form 601)
- ✓ Compensation Agreement (Form 159)

VI. Disbursement & Miscellaneous Documents

- ✓ Orders for checks (SBA Forms 1415 & 1416)
- ✓ Progress Inspections Reports (Form 300)
- ✓ Borrower's Progress Inspection Form 1366
- ✓ Supporting Borrower receipts, cancelled checks, estimates, etc.
- ✓ Copies of any letters transmitting loan checks, or records of the mailing of loan checks
- ✓ Documents relative to disbursements
- ✓ Documents which cannot be filed elsewhere

IV. Correspondence and Chron

- ✓ Chronological contact sheet documenting all contact with the Applicant/Borrower
- ✓ All correspondence to and from the Applicant/Borrower, agents, representatives, etc.

III. Verification & Processing Reports

- ✓ Loan Officer Reports (LOR) and related documentation
- ✓ Loss Verifier's reports including:
- ✓ Original Verification reports
- ✓ Subsequent Reverifications (if any) and related documentation
- ✓ Collateral Review and Flood Zone determination

- ✓ Additional comment sheets




II. Application & Supporting Documents

- ✓ Credit Report
- ✓ Other credit information
- ✓ Compensation for disaster loss information e.g. Proof of Loss
- ✓ Application form 5 or 5C
- ✓ Financial information submitted in support of the application e.g. income statements, balance sheets, Federal Tax Returns, etc.
- ✓ Legal description of property, copies of deeds, leases, titles, etc.
- ✓ Inquiry record: FEMA registration form
- ✓ IRS form 8821

Reviewing the File

Full file review is important prior to any discussion with the Borrower. This can be achieved by establishing a routine during the review of any file. This will assure that the Loss Verifier has complete knowledge of the pertinent facts.

Knowing these facts will result in a productive discussion with the Borrower and enable the Loss Verifier to address the inquiry of the Attorney or Paralegal. The following checklist of items will provide assistance.

-  Review the originator's comments at the top of the Progress Inspection Report (Form 300) and make sure that the request is understood.
-  Review the Chronological Contact Sheet for comments that relate to the action that is being performed.
-  Establish the current amount of the SBA loan. This can be done by reviewing Section I (Loan Authorization & Agreement & Modifications), Section III (Loan Officer's Report), and the Automated Loan Control System (ALCS, Screen 201). Then compare the amount to the verified loss amounts.

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Determine the total amount disbursed by the SBA to date by reviewing all SBA Form 1416s in Section VI (Disbursements & Miscellaneous Documents). The Form 1416 will illustrate:

- The date the check was ordered
- Amount of the check
- Where the check was mailed to
- Current loan balance
- Who the check was payable to

NOTE: *If the check was made payable to the Borrower and a financial institution it typically would be for refinancing and should not be included in the Loss Verifier's calculation of available funds for real estate replacement or repair.*



Review the Loan Officer's Report (LOR) in Section III to identify any additional sources of funding such as insurance recovery, American Red Cross (ARC), FEMA's Minimal Repair Program (MRP), etc.



Establish if there is a prior injection requirement. These amounts may include funds from insurance recoveries, FEMA MRP grants, personal funds, etc. Because SBA loans are limited to uninsured or uncompensated losses, funds from other sources should be injected prior to additional SBA disbursements.





Determine the total amount of funding available for the project from all sources including SBA disbursements, insurance recoveries, FEMA MRP and personal funds.



The Total Project Cost and the scope of work should be determined to assure adequate funding is available to complete the entire project. If it appears that the project cost will overrun, or underrun the total funds available, note this in the report. If an overrun is apparent and the Borrower is requesting additional funds, a reverification may be in order.

However, a loan reduction should not be recommended until the project is nearly complete and it can be confirmed by the Borrower and/or an on-site inspection.

-  Review the Borrower's Progress Certification Form 1366 along with attached receipts, cancelled checks, contracts, estimates, plans, engineering reports, etc. The form should be signed and dated along with ID number, if applicable, during the preparation of the report. The supporting documents submitted by the Borrower that account for the total project funds should correspond to the scope of disaster related repairs.
-  If the receipt review is complicated, as is the case in some larger business files, an Inspection Analysis Sheet (IAS) or other technique may be used as a tool to catalogue the submitted documents into the appropriate categories as listed within the Loan Authorization and Agreement (LA&A).

Project Cost Accounting

The Borrower is required to account for SBA loan funds as well as all other sources of funding when a prior injection is applicable. **The general guideline is that the Borrower should account for approximately 80 percent of the SBA funds disbursed prior to further disbursements.**

It should be recognized that this is only a guideline and should not necessarily stop a disbursement if the Borrower has expressed a need for the funds.

This general guideline is usually applied to SBA disbursements following the accounting of all prior injection funds. The accounting of these prior injection funds protects the Agency from investing in a project that cannot be completed.

The purpose of the program is to provide disaster loan funds to restore the Borrower's property to pre-disaster condition.

The Loan Authorization & Agreement (LA&A) identifies the "Use of Loan Proceeds" for the Borrower in a broad sense. Typically, for disaster related real estate damage, the Borrower is instructed to apply all loan proceeds "to repair/replace disaster damaged real estate located at" the specific address.

With this broad approach the Loss Verifier must use sound judgement, discretion, and reasonableness when reviewing supporting documents submitted by the Borrower.

If certain questions are asked during the receipt review process the Loss Verifier will be able to provide recommendations in the report based on a consistent, logical rationale. Some of these questions **TO ASK YOURSELF** while reviewing the receipts are as follows:

- ☐ What is the total amount of eligible receipts previously submitted?
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- ☐ How much has the Borrower spent on the recovery project?
- ☐ Does the Borrower have commitments?
- ☐ Have previous disbursements been made co-payable to the Borrower and a third party? If so, the Borrower is not required to submit receipts for these funds.
- ☐ Does the scope of work in the contracts and receipts reflect the damage contained in the Loss Verification Report? If there are variances, are they reasonable and consistent with that type of disaster related damage and allowable?
- ☐ Does there appear to be elective upgrading or remodeling that usually create a need for funds in addition to the eligible amount of the SBA loan? If so, explain in a positive manner that these are allowed but must be funded from other sources and those funds prior injected into the project before SBA funds.
- ☐ Has the Borrower exhausted all SBA funds to date and is now out of pocket? If so, how much?

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- What is the total amount of self-certified receipts? Is the amount reasonable considering the scope of work, location of the disaster, do-it-yourself project, etc?
- Are lead funds required to meet commitments? Is there a draw schedule?
- Is there a cost overrun or underrun? If there is an overrun, how is it funded? If there is a potential underrun, **do not** recommend a loan reduction until the project is substantially complete and an accurate Total Project Cost is established.
- What is the Total Project Cost? What are the amounts and sources of the funding to meet the Total Project Cost?
- Is there a prior injection requirement and has it been satisfied?
- Is a Reverification necessary? If so, is there adequate supporting documentation to warrant a “desktop” or an “on-site”. **(See Reverification Module).**
- Has SBA funding been approved for any hazard mitigation measure? **(See Hazard Mitigation Module)**
- Is a building permit required and is it in the file?
- Will the progress of the project require an extension of the disbursement period?






- Is the project scope being altered or is it complicated enough to warrant a copy of the plans?
- Is an engineer's report required?

Communication with the Borrower

The Loss Verifier should discuss the progress inspection with the Borrower following a thorough review of the file and the documents submitted. **The basic policy is unchanged, the Borrower's need should govern disbursement when it is expressed or obvious.** Many people the Loss Verifier will be dealing with have been through a traumatic experience. It is our responsibility to help and not discourage them. It is essential the Loss Verifier exercise tact and patience under these trying conditions

Politely introduce yourself and explain your purpose. You must ensure that the Borrower is prepared to discuss the project at that time.

Offer to call back if work or other circumstances do not make it convenient. If it is convenient for the Borrower at that time, consider the following during your discussion:

-  Discuss the status of the project, the repairs remaining to be completed and if it is on schedule.
-  Explain all SBA policies relevant to the Borrower's project and offer to answer any questions or direct their question to the appropriate department.
-  Discuss the Total Project Cost with the Borrower.
-  Review the documents submitted by the Borrower. Explain to the Borrower how to account for eligible expenses. If the Borrower has submitted ineligible receipts attempt to clarify any mistaken perceptions about the program.
-  Advise the Borrower about specific expense information or documents they must submit.



Inform the Borrower of your recommendations but emphasize that the legal department actually makes the decision to disburse the funds.

The Report

The report is compiled following review of the documents and contact with the Borrower. It must address the originator's inquiries and provide them with the essential information regarding the status of the recovery project. This information should be presented in a consistent format that others can easily read and understand.

The "Request for Progress Inspection" has been designed to provide the consistency required to communicate the essential information to the Legal Department. With the exception of the comment section, the format is self-explanatory. All areas of the form are required to be completed.

The Chron Sheet

It is important to complete the chron sheet every time contact or attempt is made to contact the Borrower. The Loss Verifier should include the date, their printed name, title and I.D. number (if applicable), as well as a brief summary of the content of the conversation.

RESERVED